

**DRAFT ANNUAL BUDGET OF**  
**EPRHAIM MOGALE**  
**LOCAL MUNICIPALITY**



**2017/18 TO 2019/20**  
**MEDIUM TERM REVENUE AND**  
**EXPENDITURE FORECASTS**

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## Table of Contents

### Part 1 – Annual Budget

| No.       | Description   | Page no. |
|-----------|---|----------|
|           | Table of content  | 2        |
|           | Abbreviations   | 4        |
| <b>1</b>  | <b>PART 1- ANNUAL BUDGET</b>  |          |
| 1.1       | The Mayor's report  | 5        |
| 1.2       | Resolutions   | 6        |
| 1.3       | Executive Summary   | 7        |
| 1.4       | Annual Budget Tables  | 16       |
| <b>2.</b> | <b>PART 2-SUPPORTING DOCUMENTATION</b>  |          |
| 2.1       | Overview of annual budget process   | 20       |
| 2.2       | Overview of alignment of annual budget with Integrated Development Plan                     | 21       |
| 2.3       | Measurable performance objectives and indicators  | 22       |
| 2.4       | Overview of budget- related policies  | 25       |
| 2.5       | Overview of budget assumptions  | 26       |
| 2.6       | Overview of budget funding  | 27       |
| 2.7       | Expenditure on allocations and grant programmes   | 28       |
| 2.8       | Allocation and grants made by municipality  | 28       |
| 2.9       | Councillor allowances and employee benefits   | 28       |
| 2.10      | Monthly targets for revenue, expenditure and cash flow                                      | 28       |
| 2.11      | Annual budgets and services delivery and budget implementation plans – internal departments | 29       |
| 2.12      | Contracts having future budgetary implications  | 29       |
| 2.13      | Capital Expenditure Details   | 29       |
| 2.14      | Legislation compliance status   | 29       |
| 2.15      | Other supporting documents  | 30       |
| 2.16      | Annual budgets of municipal entities attached to the municipal annual budget                | 30       |
| 2.17      | Municipal manager's quality certification   | 31       |
|           |   |          |

## **LIST OF ANNEXURES**

|   |          |
|---|----------|
| ANNUAL BUDGET TABLES A1 - A10.....        | <b>A</b> |
| OTHER SUPPORTING DOCUMENT SA1 – SA38..... | <b>A</b> |
| APPROVED TARIFFS.....                     | <b>B</b> |
| BUDGET RELATED POLICIES.....              | <b>C</b> |

## **Abbreviations and Acronyms**

|       |  |
|-------|--|
| CFO   | Chief Financial Officer                          |
| MM    | Municipality Manager                             |
| CPI   | Consumer Price Index                             |
| CRRF  | Capital Replacement Reserve Fund                 |
| DBSA  | Development Bank of South Africa                 |
| DoRA  | Division of Revenue Act                          |
| DWA   | Department of Water Affairs                      |
| FBS   | Free basic services                              |
| GAMAP | Generally Accepted Municipal Accounting Practice |
| GDP   | Gross domestic product                           |
| GFS   | Government Financial Statistics                  |
| GRAP  | General Recognised Accounting Practice           |
| IDP   | Integrated Development Strategy                  |
| KPA   | Key Performance Area                             |
| KPI   | Key Performance Indicator                        |
| LED   | Local Economic Development                       |
| MEC   | Member of the Executive Committee                |
| MFMA  | Municipal Financial Management Act               |
| MIG   | Municipal Infrastructure Grant                   |
| MPRA  | Municipal Properties Rates Act                   |
| MSA   | Municipal Systems Act                            |
| MTEF  | Medium-term Expenditure Framework                |
| MTREF | Medium-term Revenue and Expenditure Framework    |
| NERSA | National Electricity Regulator South Africa      |
| OHS   | Occupational Health and Safety                   |
| PMS   | Performance Management System                    |
| PPE   | Property Plant and Equipment                     |
| PPP   | Public Private Partnership                       |
| SALGA | South African Local Government Association       |
| SDBIP | Service Delivery Budget Implementation Plan      |

## **Part 1 – Annual Budget**

### **1.1 Mayor's Report**

The 2016 Local Government elections have past and as a municipality we have entered a new era with a new political leadership. The Municipal Systems Act (No 32 of 2000) compels all municipal Councils to develop, adopt the Draft Budget & Integrated Development Plan (IDP) which has to be reviewed annually, it is included in the period 2016 to 2021. During the said strategic review, the municipality has further reviewed its vision and mission. This draft budget document will be aligned with the IDP and will form part of developmental plan which came as a result of highly consultation with communities and stakeholders and comments by individuals who are all interested in the general development, growth and making a better life for the community of Ephraim Mogale Local Municipality.

In line with the National Development plan (NDP) & Limpopo Development Plan (LDP) the municipality will continues to improve and better the life of the communities it put emphasis and priorities on the improvement of the life of communities through the development of infrastructure

As required by Chapter4 of Local Government: Municipal System Act 32 of 2000, community members gave the municipality inputs of their developmental needs within its areas and the prioritisation thereof. This is part of legislative requirement to engage in community participation in the operations and administration for local government were communities and the lessons drawn from the public participation processes has encouraged the municipality positively. The communities has challenged us to strengthen link between the IDP and the Budget in order to achieve the objectives of our municipality. The municipality is confident that with this presented draft budget will meet the critical service delivery needs raised by the community members.

Our sincere gratitude goes to Executive Committee Members, Councillors, Traditional Leaders (Magoshi) officials and all stakeholders and members of the communities who participated and gave unwavering support in working together in ensuring a better life for all and making sure that we have viable and sustainable municipality that provides quality service and enhance economic growth. The municipality further noted with great appreciations the fact that our communities are appreciating and taking care of facilities and other commodities provided to them by the municipality and other spheres of government.

## **1.2 Council Resolution**

The Council of Ephraim Mogale Local Municipality, acting in terms of section 24 of the Municipal Finance Management Act, (Act 56 of 2003) approves:

- 1.2.1. The Tabled budget of the municipality for the financial year 2017/2018 and the multi-year and single-year capital appropriations as set out in the following tables:
  - (A) Budgeted Financial Performance (revenue and expenditure by standard classification) as contained in Table A2 of MTREF
  - (B) Budgeted Financial Performance (revenue and expenditure by municipal vote) as contained in Table A3 of MTREF
  - (C) Budgeted Financial Performance (revenue by source and expenditure by type) as contained in Table A4 of MTREF
  - (D) Multi-year and single-year capital appropriations by municipal vote and standard classification and associated funding by source as contained in Table A5 of MTREF
- 1.2.2. The financial position, cash flow budget, cash-backed reserve/accumulated surplus, asset management and basic service delivery targets are approved as set out in the following tables:
  - (A) Budgeted Financial Position as contained in Table A6 OF MTREF
  - (B) Budgeted Cash Flows as contained in Table A7 OF MTREF
  - (C) Cash backed reserves and accumulated surplus reconciliation as contained in Table A8 OF MTREF
  - (D) Asset management as contained in Table A9 of MTREF
  - (E) Basic service delivery measurement as contained in Table A10 OF MTREF
- 1.2.3. Tariffs and charges reflected in Annexure B are approved for the budget Year 2017/2018.
- 1.2.4. The amended Budget related policies as detailed in Annexure C are approved for the budget year 2017/2018.
- 1.2.5. That the planning on all capital project commence immediately.

### **1.3 Executive Summary**

The Draft budget for 2017/2018 was compiled in accordance with the requirements of the Municipal Finance Management Act (Act 56 of 2003) as well as the Municipal Budget and Reporting Regulations which gives a clear directive on the prescribed reporting framework and structure to be used.

The application of sound financial management principles for the compilation of the municipal's financial plan is essential and critical to ensure that the municipality remains financially viable and that municipal services are provided sustainably, economically and equitably to all communities.

Section 16 of the Municipal Finance Management Act (MFMA) requires that the municipality must for each financial year approve an annual budget before the start of the financial year.

The format and contents of the budget are prescribed by sections 16 to 27 of the MFMA as well the Municipal Budget and Reporting Regulation issued by National Treasury.

The MFMA refers to funding of expenditure and states:

**a.** An annual budget may only be funded from:

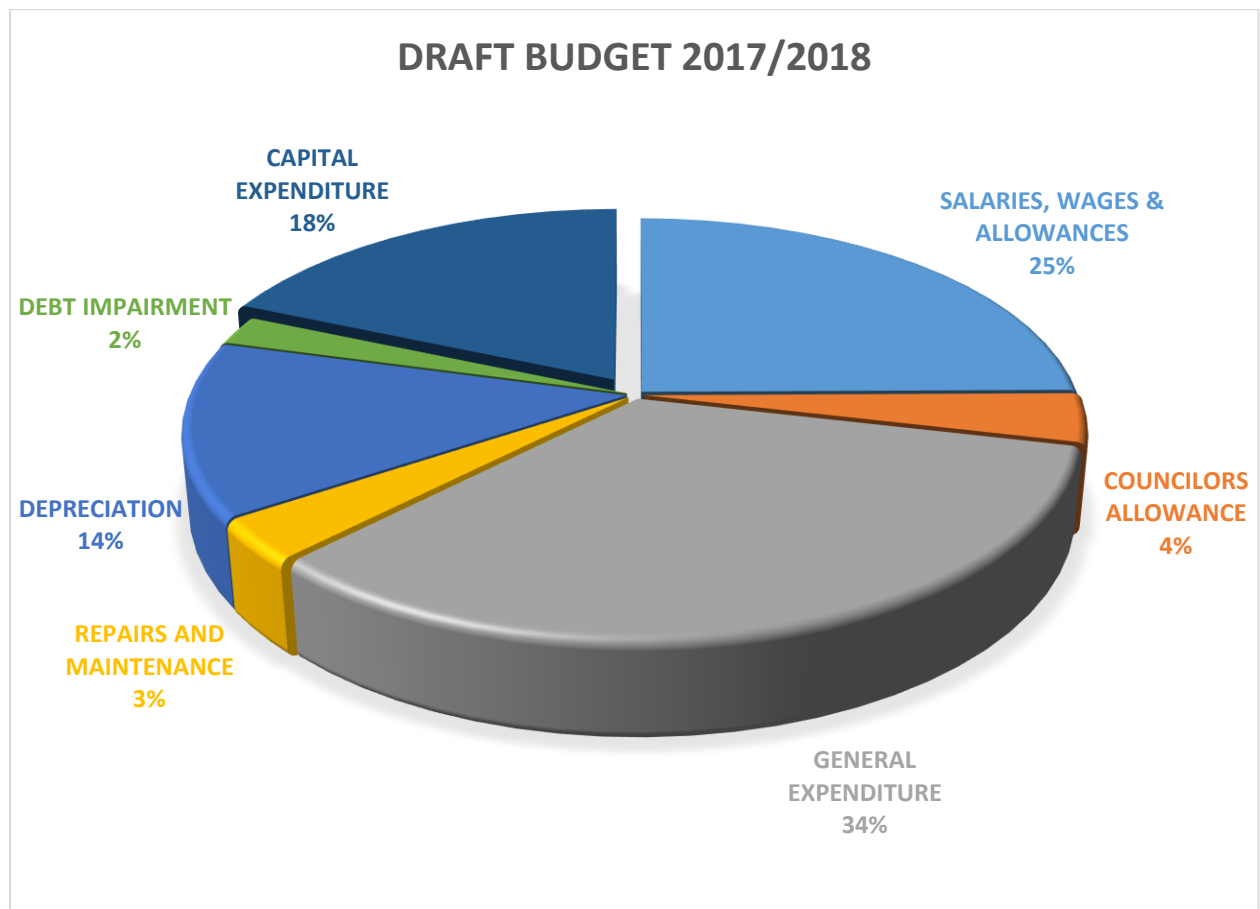
- realistically anticipated revenues to be collected
- cash-backed accumulated funds from previous years' surpluses not committed for other purposes; and
- Borrowed funds; but only for the capital budget referred to in section 17(2).

**b.** Revenue projections in the budget must be realistic, taking into account:

- projected revenue for the current year based on collection levels to date; and
- Actual revenue collected in previous financial years."

Circular 85 and 86 issued by National Treasury provide further guidance for the preparation of 2017/2018 MTREF. All other MFMA Budget Circulars as well as departmental inputs were taken into consideration when preparing the draft budget.

The following is a summary of Draft budget for 2017/2018.



The highest percentage goes to the General expenditure (34%) which is mainly caused by expenditure such as Bulk purchases and Contracted services costing R31.7 Million and R10.8 Million respectively.

The salaries and wages for 2016/2017 financial year was R72 Million and it has increased to R 82 Million for 2017/2018 financial year. Salaries and wages has increased by 7.4%.

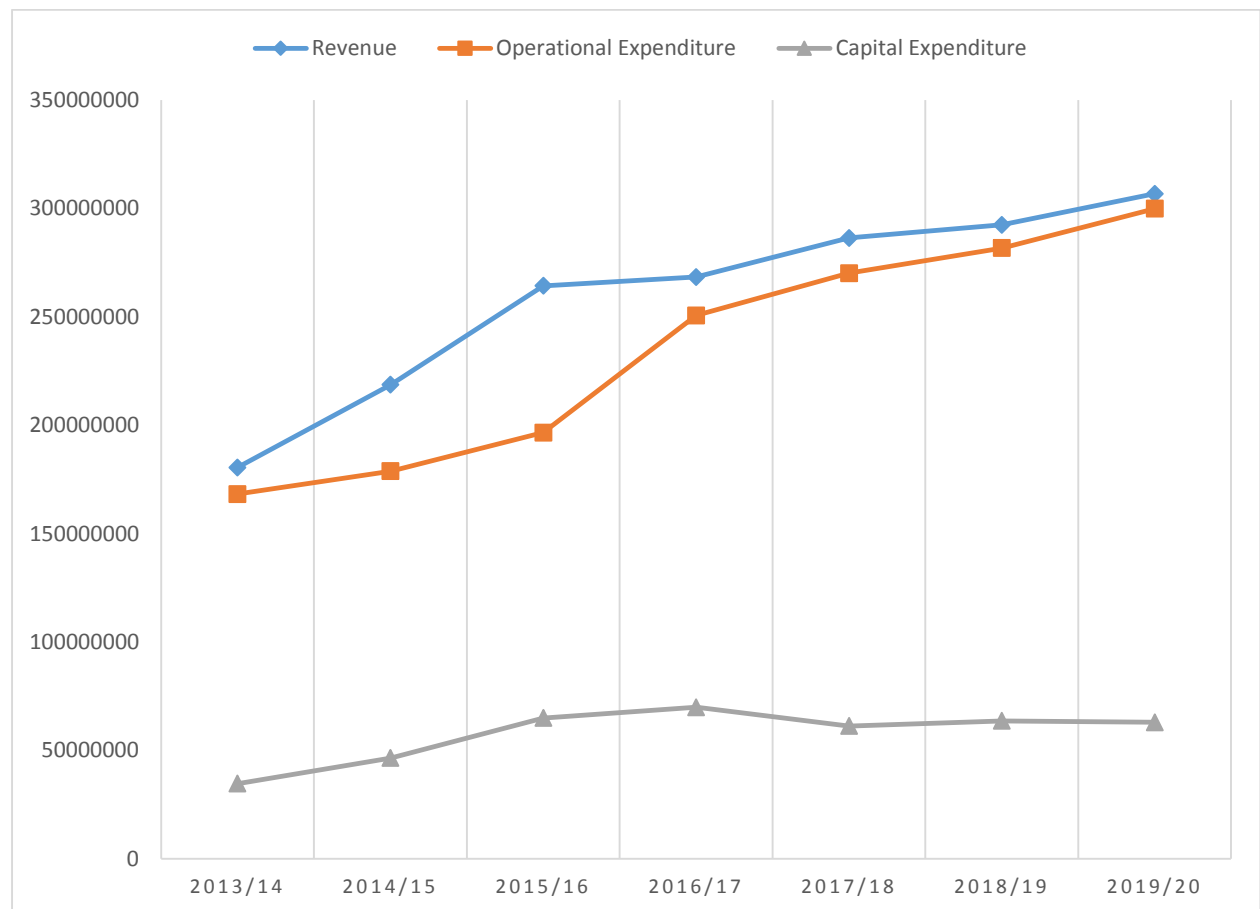
Repairs and maintenance is below 8% of the total property plant and equipment of the municipality, however the 3% based on the overall budget will be able to deal with all items that needs to be repaired or maintained in 2017/2018 financial year.

Provision for doubtful debts is seating at 2% due to non-payment of debts.

Depreciation is at 14%, and this has been done in line with **GRAP** standard.



The following graph provides an analysis of Revenue, operational expenditure and capital expenditure over the MTREF. It highlights the Municipality's strategy to address the Community needs.



Revenue has been growing since 2013/2014 up to 2019/2020, this is mainly as a result of Operational Grants (such as equitable share) increasing every year

Total operational expenditure has been increasing without declining from 2013/2014 to 2019/2020 as a result of annual increase in inflation.

Capital expenditure has marginally went down from 2016/2017 to 2017/2018, however it has increased in the two outer years.

**The following were the challenges experienced during the compilation of the 2017/2018 MTREF**

- The ongoing difficulties in the national and local economy
- The need to reprioritize projects and expenditure within the existing limited resource taking into account the current cash flow limitations
- Salaries increases for municipal staff
- Non-payment of municipal services account
- Alignment of 2017/2018 budget to mSCOA

## **The following budget principles and guidelines directly informed the compilation of the 2017/2018 Draft Budget**

- Zero rated budgeting was used on capital budget
- Tariff and property rate increases should be affordable and should generally not exceed inflation as measured by the CPI, except where there are price increases in the inputs of services that are beyond the control of the municipality
- Tariffs need to remain or move towards being cost reflective, and should take into account the need to address infrastructure backlogs
- the necessary grants to the municipality are reflected in the national and provincial budget and have been gazetted as required by the annual Division of Revenue Act

### **Revenue management**

National Treasury continues to encourage municipalities to keep increases in property rates, tariffs for trading services and charges for other municipal own revenue sources within the parameters of the country's inflation rate. Furthermore, municipalities must adopt a tariff setting methodology that achieves an appropriate balance between the interests of poor households and other customers while ensuring financial sustainability of the municipality. Demand management is becoming increasingly necessary as the country faces water shortages and an unstable electricity supply. The approach to tariff setting should consider all these factors and strive to achieve an equitable balance.

It is anticipated that the cost of providing municipal services will grow at a faster rate than the transfers from national government. Resource scarcity will most likely increase the cost of bulk purchases in respect of electricity beyond the country's inflationary targets.

Furthermore, providing for free basic services in the case of poorer households must be carefully considered and, where some municipalities have opted to provide this benefit to ALL households, this may not be financially sustainable in the long-term.

Where appropriate, a municipality should re-evaluate the costs and benefits of universal or targeted provision of free basic services subsidies, in order to protect their delivery to poor households in particular. At no point should the provision of these subsidies remove resources from programmes that will expand access to infrastructure services for presently un-served households. Where municipalities do not have an adequate revenue base and where municipalities face a combination of challenges such as resource scarcity, high unemployment and slower than average economic growth, an aggressive approach to curbing non-core spending and improving operational efficiencies is strongly advised.

### **Tariff setting**

There are several tools available and methodologies employed to determine the appropriate tariffs. Municipalities may favour different approaches but the principles of tariff setting should be consistently applied. Municipalities should consider the following practicalities when setting tariffs:

- Costs of bulk purchases and the fluctuation in the seasonal cost thereof;
- Consumption patterns to enable better demand planning and management; and
- In the event that municipalities have been under recovering costs, embark on a process to correct their tariff structures over a reasonable time period so that cost reflective tariffs are achieved.

The tariff setting process is reliant on sound baseline information such as the number of properties within the municipal area of jurisdiction, the values of these properties, the number of households

identified as indigent or poor, the consumption patterns in respect of basic services and the growth patterns within the various geographic areas.

The inflation rate forecasts as per MFMA circular no.86 issued by National Treasury has been used on the MTERF. The maximum of 6.4 growth rate was used on the tariffs. However some tariffs are based on cost recovery.

The following are the proposed tariff increases after taking into consideration the guidelines from National Treasury:

|                   |       |
|-------------------|-------|
| Assessment Rates: | 6.4%  |
| Electricity:      | 1.88% |
| Cleansing:        | 6.4%  |
| Other income:     | 6.4%  |

The inflation rate forecasts as per MFMA circular no.86 issued by National Treasury has been used on the MTERF. The maximum of 6.4 growth rate was used on the tariffs. However some tariffs are based on cost recovery.

**The following table is an overview of the proposed 2017/2018 Draft budget**

| Overview of the 2017/18 Draft budget  |                       |                       |                       |                        |                        |   |                        |                        |
|---|-----------------------|-----------------------|-----------------------|------------------------|------------------------|---|------------------------|------------------------|
| Description   | 2013/14               | 2014/15               | 2015/16               | Current Year 2016/17   |                        | 2017/18 Medium Term Revenue & Expenditure Framework |                        |                        |
| R thousand  | Audited Outcome       | Audited Outcome       | Audited Outcome       | Original Budget        | Adjusted Budget        | Budget Year 2017/18                                 | Budget Year +1 2018/19 | Budget Year +2 2019/20 |
| <b>Revenue By Source</b>  |                       |                       |                       |                        |                        |   |                        |                        |
| Property rates  | 29,830,570.00         | 25,771,581.00         | 29,797,752.00         | 28,372,336.46          | 30,057,754.68          | 35,127,971.00                                       | 37,200,522.00          | 39,358,152.00          |
| Service charges - electricity revenue   | 34,080,395.00         | 37,384,302.00         | 45,784,500.00         | 54,203,874.00          | 47,637,496.57          | 48,685,521.49                                       | 55,564,376.00          | 60,009,526.07          |
| Service charges - refuse revenue  | 2,913,846.00          | 3,380,627.00          | 3,215,661.00          | 4,407,522.50           | 4,359,567.36           | 4,968,405.00  | 5,261,541.00           | 5,566,710.00           |
| Service charges - other   |                       |                       |                       |                        |                        |   |                        |                        |
| Rental of facilities and equipment  | 158,352.00            | 123,685.00            | 138,458.90            | 209,275.69             | 143,497.64             | 151,965.00  | 160,454.00             | 169,884.00             |
| Interest earned - external investments  | 1,903,903.00          | 2,451,977.00          | 4,676,603.00          | 1,240,600.47           | 6,534,678.42           | 6,933,293.00  | 7,342,358.00           | 7,277,134.00           |
| Interest earned - outstanding debtors   | 3,411,822.00          | 2,514,879.00          | 3,502,402.00          | 2,375,964.56           | 4,747,067.88           | 5,036,639.00  | 5,333,801.00           | 5,643,161.00           |
| Dividends received  |                       |                       |                       |                        |                        |   |                        |                        |
| Fines, penalties and forfeits   | 1,239,376.00          | 1,868,179.00          | 1,553,784.00          | 731,219.57             | 247,659.55             | 262,539.00  | 278,029.00             | 294,155.00             |
| Licences and permits  | 4,420,034.00          | 3,913,628.00          | 2,457,340.00          | 3,395,770.99           | 3,121,158.48           | 3,181,453.00  | 3,369,158.00           | 3,564,570.00           |
| Agency services   |                       |                       | 3,994,013.00          | 8,078,459.28           | 7,034,723.00           | 7,635,500.00  | 8,085,993.00           | 8,554,983.00           |
| Transfers and subsidies   | 81,383,968.00         | 94,712,291.00         | 121,961,278.00        | 120,624,000.00         | 120,624,000.00         | 127,358,000.00                                      | 131,655,000.00         | 135,606,000.00         |
| Other revenue   | 3,297,654.00          | 15,025,249.00         | -                     | 5,349,823.67           | 2,940,900.95           | 2,287,258.09  | 2,416,576.40           | 3,047,817.48           |
| Gains on disposal of PPE  |                       |                       | 913,030.10            | 600,000.00             | 600,000.00             |   |                        |                        |
| <b>Total Revenue (excluding capital transfers and contributions)</b>                          | <b>162,639,920.00</b> | <b>187,146,398.00</b> | <b>217,994,822.00</b> | <b>229,588,847.19</b>  | <b>228,048,504.53</b>  | <b>241,628,544.58</b>                               | <b>256,667,808.39</b>  | <b>269,092,092.56</b>  |
| <b>Expenditure By Type</b>  |                       |                       |                       |                        |                        |   |                        |                        |
| Employee related costs  | 49,251,332.00         | 53,150,282.00         | 59,377,039.00         | 70,709,750.82          | 73,121,629.35          | 82,321,696.00                                       | 86,677,831.00          | 92,623,024.00          |
| Remuneration of councillors   | 9,879,963.00          | 10,343,455.00         | 10,633,000.00         | 11,663,148.02          | 11,663,148.02          | 12,596,199.00                                       | 13,603,896.00          | 14,692,208.00          |
| Debt impairment   | 6,066,546.00          | 2,944,339.00          | 3,497,000.00          | 7,314,000.00           | 7,314,000.00           | 7,513,781.69  | 8,900,000.00           | 9,692,611.00           |
| Depreciation & asset impairment   | 37,960,565.00         | 40,721,576.00         | 41,399,062.00         | 44,944,000.00          | 44,944,000.00          | 45,000,000.00                                       | 46,000,000.00          | 48,500,000.00          |
| Finance charges   | 1,432,117.00          | 2,042,079.00          | 2,428,839.00          | 797,980.72             | 397,980.72             | 422,257.54  | 448,015.25             | 475,344.18             |
| Bulk purchases  | 21,544,525.00         | 23,580,252.00         | 27,803,116.00         | 29,355,062.61          | 29,355,062.61          | 31,703,467.00                                       | 34,239,744.36          | 36,978,923.91          |
| Other materials   | 9,180,043.00          | 7,874,188.00          | 7,879,034.00          | 13,093,442.82          | 10,488,741.13          | 10,853,968.57                                       | 11,744,955.27          | 13,281,636.37          |
| Contracted services   | 2,854,919.00          | 4,071,246.00          | 4,680,336.00          | 8,820,679.00           | 13,195,679.00          | 13,509,109.74                                       | 11,848,541.70          | 12,680,534.00          |
| Transfers and subsidies   | 1,173,633.00          | 1,587,562.00          | 1,936,759.85          | 2,749,886.22           | 2,469,786.66           | 2,910,422.00  | 3,118,639.76           | 3,342,007.98           |
| Other expenditure   | 28,920,952.00         | 31,253,065.00         | 37,033,629.15         | 58,807,897.16          | 57,754,767.04          | 63,322,643.04                                       | 65,206,693.14          | 67,641,722.01          |
| Loss on disposal of PPE   |                       | 1,305,666.00          |                       |                        |                        |   |                        |                        |
| <b>Total Expenditure</b>  | <b>168,264,595.00</b> | <b>178,873,710.00</b> | <b>196,667,815.00</b> | <b>248,255,847.37</b>  | <b>250,704,794.53</b>  | <b>270,153,544.58</b>                               | <b>281,788,316.49</b>  | <b>299,908,011.44</b>  |
| <b>Surplus/(Deficit)</b>  | <b>(5,624,675.00)</b> | <b>8,272,688.00</b>   | <b>21,327,007.00</b>  | <b>(18,667,000.18)</b> | <b>(22,656,290.00)</b> | <b>(28,525,000.01)</b>                              | <b>(25,120,508.10)</b> | <b>(30,815,918.89)</b> |
| Transfers and subsidies - capital (monetary allocations) (National / Provincial and District) | 17,905,588.00         | 31,583,815.00         | 46,308,894.00         | 31,917,000.00          | 40,324,309.40          | 44,810,000.00                                       | 35,775,000.00          | 37,670,000.00          |
| Transfers and subsidies - capital (in-kind - all)   |                       |                       |                       |                        |                        |   |                        |                        |
| <b>Surplus/(Deficit) for the year</b>   | <b>12,280,913.00</b>  | <b>39,856,503.00</b>  | <b>67,635,901.00</b>  | <b>13,249,999.82</b>   | <b>17,668,019.40</b>   | <b>16,284,999.99</b>                                | <b>10,654,491.90</b>   | <b>6,854,081.11</b>    |

## Revenue

The major Sources of revenue that resulted to an increase in total revenue excluding capital transfer from R228 Million to R241 Million are the following

- Revenue to be generated from property rates is R30.5 million in the 2016/2017 financial year and increases to 35 million by 2017/2018 which represents an increase of the operating revenue base of the municipality and therefore remains a significant funding source for the municipality. The municipality is anticipating to collect rate of 82 % of on all billed services.
- The 2017/2018 financial year, municipality budget will depend mainly on grants.
- Transfers recognized – operating includes the local government equitable share and other operating grants from national Government. The grants receipts from national government are growing rapidly over the budget year. It has increased by R6.7 Million in 2017/18 financial year.
- Tariffs increase of 6.4% also played a major role in revenue increment.
- Capital transfer consist of MIG, it has increased by 11% from 2016/2017 to 2017/2018.

## Expenditure

Salaries and allowances for municipal staff has increased by 7.4%. Remuneration of councillors are calculated on actual costs approved in accordance with the Government Gazette on the Remuneration of Public Office Bearers Act.

Other expenditure line items include amongst other the following

| Other expenditure               | Amount       |
|---------------------------------|--------------|
| Audit fees                      | 4,553,113.86 |
| Legal services                  | 3,498,000.00 |
| WARD COMMITTEE SUPPORT -STIPEND | 1,950,000.00 |
| FUEL AND OIL                    | 2,628,637.78 |
| PROVINCE - LICENCES             | 5,971,072.00 |
| DEPT.EXPENDITURE: ELECTRICITY   | 2,959,045.97 |
| RENTAL FEES:MACH & EQUIPMENT    | 1,030,266.47 |
| SUNDRIES: VEHICLE COSTS         | 1,000,000.00 |
| SALGA MEMBERSHIP                | 850,000.00   |

Most of expenditure has marginally increased from 2016/2017 to 2017/2018 financial year due to annual increase in inflation.

The following table is a consolidated overview of the proposed 2015/2016 Capital expenditure

| Consolidated Overview of the 2017/18 Draft budget |                      |                      |   |                        |                        |
|---|----------------------|----------------------|---|------------------------|------------------------|
| Vote Description                                  | Current Year 2016/17 |                      | 2017/18 Medium Term Revenue & Expenditure |                        |                        |
| R thousand  | Original Budget      | Adjusted Budget      | Budget Year 2017/18                       | Budget Year +1 2018/19 | Budget Year +2 2019/20 |
| <b>Total Capital Expenditure - Functional</b>     | <b>65,507,958.00</b> | <b>69,926,019.40</b> | <b>61,285,000.00</b>                      | <b>63,667,175.00</b>   | <b>63,029,150.00</b>   |
| <b>Funded by:</b>                                 |                      |                      |   |                        |                        |
| National Government                               | 31,917,000.00        | 40,324,309.40        | 44,810,000.00                             | 35,775,000.00          | 37,670,000.00          |
| <b>Internally generated funds</b>                 | <b>33,590,958.00</b> | <b>29,601,710.00</b> | <b>16,475,000.00</b>                      | <b>27,892,175.00</b>   | <b>25,359,150.00</b>   |
| <b>Total Capital Funding</b>                      | <b>65,507,958.00</b> | <b>69,926,019.40</b> | <b>61,285,000.00</b>                      | <b>63,667,175.00</b>   | <b>63,029,150.00</b>   |

The capital budget is budgeted for R 69.9 Million in 2016/17 financial year while i2 2017/2018 is budgeted for R 61 Million. It has decreased by R 8.6 Million. The 2016/2017 capital budget includes a roll over MIG of R8 Million.

The proposed capital budget is set as follows:

|                                      |        | Capital Expenditure   | ADJUSTMENT<br>BUDGET<br>2016/2017 | DRAFT<br>BUDGET<br>2017/2018 | FORECAST<br>2018/2019 | FORECAST<br>2019/2020 |
|--------------------------------------|--------|---|-----------------------------------|------------------------------|-----------------------|-----------------------|
| <b>REGISTRATION AUTHORITY</b>        |        |   |                                   |                              |                       |                       |
| 220                                  | 305021 | EXTENSION OF OFFICES(CUBICLES)  | 500,000.00                        |                              |                       |                       |
| 220                                  | 305164 | NEW ENTRANCE -BOOM GATES  | 250,000.00                        |                              |                       |                       |
| 220                                  | 305170 | PALISADE FENCING  | 500,000.00                        |                              |                       |                       |
|                                      |        |   | <b>1,250,000.00</b>               | -                            | -                     | -                     |
| <b>LICENCING AND TRAFFIC</b>         |        |   |                                   |                              |                       |                       |
| 225                                  | 305000 | FIRE ARM  | 40,000.00                         | -                            |                       |                       |
| 225                                  | 305070 | SPEED CAMERA  | 200,000.00                        | 300,000.00                   |                       |                       |
| 225                                  | 305080 | VEHICLES  | 600,000.00                        | 600,000.00                   |                       |                       |
|                                      |        |   | <b>840,000.00</b>                 | <b>900,000.00</b>            | -                     | -                     |
| <b>ELECTRICITY</b>                   |        |   |                                   |                              |                       |                       |
| 260                                  | 305000 | INDUSTRIAL SUBSTATION SECOND SUPPLY PHASE 3 (CABLE, EARTH AND INSTALLATION) |                                   |                              |                       | 3,100,000.00          |
| 260                                  | 305000 | REPLACE OLD 35MM PILC 11KV CABLE FROM ERF181 -830                           |                                   |                              |                       | 670,000.00            |
| 260                                  | 305000 | REPLACE MINISUB ERF 338 MOPANIE STREET                                      |                                   |                              |                       | 600,000.00            |
| 260                                  | 305000 | CABLE REPLACEMENT ERF 749-754 WISTARIA & DAHLIA STREETS                     |                                   |                              |                       | 450,000.00            |
| 260                                  | 305000 | RETROFIT MAST LIGHT FITTINGS - RATHOKE                                      |                                   |                              |                       | 623,000.00            |
| 260                                  | 305000 | TRANSFORMER REPLACEMENT 500KVA - PORTION 515                                |                                   | 500,000.00                   |                       |                       |
| 260                                  | 305000 | REPLACE RMU WITH SF6 CIRCUIT BREAKER -CNR AGAAT/EWOUD MALAN                 |                                   | 500,000.00                   |                       |                       |
| 260                                  | 305000 | INDUSTRIAL SUBSTATION SECOND SUPPLY PHASE 2 (OTK PANEL)                     |                                   | 600,000.00                   |                       |                       |
| 260                                  | 305000 | REPLACE 11KV OVERHEAD LINE WITH CABLE -IND STREET                           |                                   | -                            | 1,263,000.00          |                       |
| 260                                  | 305000 | MINISUBSTATION STAND 456 IRIS STREET  |                                   | 600,000.00                   |                       |                       |
| 260                                  | 305000 | UPGRADE MUNICIPAL MAIN SUPPLY (MAIN SUBSTATION)                             |                                   |                              | -                     | 5,000,000.00          |
| 260                                  | 305000 | GENERATOR FOR MUNICIPAL EVENTS 50KVA  | -                                 | -                            | 390,000.00            | 400,000.00            |
| 260                                  | 305000 | GENERATOR FOR OFFICE ADMIN 220KVA   | -                                 | -                            | 1,100,000.00          | -                     |
| 260                                  | 305000 | PLOTTER A1  | 50,000.00                         |                              |                       |                       |
| 260                                  | 305000 | ELECTRICAL MATERIAL   | 200,000.00                        |                              |                       |                       |
| 260                                  | 305162 | MAST LIGHT CONNECTIONS  | 60,000.00                         |                              |                       |                       |
| 260                                  | 305165 | CHRISTMAS DECORATIONS   | 250,000.00                        |                              |                       |                       |
| 260                                  | 305169 | MATLALA RAMOSHEBO MAST RETROIT  | 435,000.00                        |                              |                       |                       |
| 260                                  | 305173 | GENERATOR FOR OFFICE FIN 100KV  | 520,000.00                        |                              |                       |                       |
| 260                                  | 305174 | DENSIFICATION EXT 1 & 3   | 1,000,000.00                      |                              |                       |                       |
| 260                                  | 305176 | INDUSTRIAL SUBSTATION SECOND SUPPLY PHASE 1                                 | 1,200,000.00                      |                              |                       |                       |
| 260                                  | 305179 | UPGRADE EXT 2 PHASE 2   | 1,185,710.00                      |                              |                       |                       |
|                                      |        |   | <b>4,900,710.00</b>               | <b>2,200,000.00</b>          | <b>2,753,000.00</b>   | <b>10,843,000.00</b>  |
| <b>HEALTH GENERAL</b>                |        |   |                                   |                              |                       |                       |
| 335                                  | 305166 | RESURFACING OF TENNIS COURTS  | 250,000.00                        |                              |                       |                       |
|                                      |        |   | <b>250,000.00</b>                 | -                            | -                     | -                     |
| <b>SOLID WASTE</b>                   |        |   |                                   |                              |                       |                       |
| 360                                  | 305070 | MACHINERY & EQUIPMENT   | 460,000.00                        | -                            |                       |                       |
| 360                                  | 305159 | FENCING OF ACCESS ROAD  | 160,000.00                        |                              |                       |                       |
| 360                                  | 305172 | WEIGHBRIDGE WITH SOFTWARE   | 750,000.00                        |                              |                       |                       |
| 360                                  | 305600 | Tipper truck  |                                   | 850,000.00                   |                       |                       |
| 360                                  | 305600 | Refuse Container  |                                   | 540,000.00                   |                       |                       |
| 360                                  | 305600 | Truck   |                                   |                              | 1,568,800.00          | -                     |
|                                      |        |   | <b>1,370,000.00</b>               | <b>1,390,000.00</b>          | <b>1,568,800.00</b>   | -                     |
| <b>COMMUNITY SERVICES MANAGEMENT</b> |        |   |                                   |                              |                       |                       |
| 375                                  | 305000 | DIGITAL CAMERA  |                                   | 10,000.00                    |                       |                       |
|                                      |        |   | -                                 | <b>10,000.00</b>             | -                     | -                     |
| <b>PARKS AND CEMETERIES</b>          |        |   |                                   |                              |                       |                       |
| 425                                  | 305000 | TLB   |                                   | 1,300,000.00                 |                       |                       |
| 425                                  | 305000 | BUSH CARTERS  |                                   | 160,000.00                   |                       |                       |
| 425                                  | 305000 | LOAN MOWERS   |                                   |                              | 150,000.00            | 150,000.00            |
| 425                                  | 305070 | MACHINERY & EQUIPMENT   | 980,000.00                        | -                            |                       |                       |
| 425                                  | 305071 | LANDSCAPING& GREENING PROJECT   | 320,000.00                        | 1,000,000.00                 | 1,335,422.00          | 1,909,110.00          |
| 425                                  | 305111 | EXTENSIONS TO CEMETERY  | -                                 | -                            | 300,000.00            | -                     |
|                                      |        |   | <b>1,300,000.00</b>               | <b>2,460,000.00</b>          | <b>1,785,422.00</b>   | <b>2,059,110.00</b>   |
| <b>ADMINISTRATION</b>                |        |   |                                   |                              |                       |                       |
| 500                                  | 305053 | FILE STORAGE CENTRE   | -                                 | 75,000.00                    |                       |                       |
| 500                                  | 305060 | INSTALLATION OF FIRE DETECTORS  | -                                 |                              |                       |                       |
| 500                                  | 305065 | PURCHASE OF FURNITURE   | 550,000.00                        |                              |                       |                       |
|                                      |        |   | <b>550,000.00</b>                 | <b>75,000.00</b>             | -                     | -                     |
| <b>ICT</b>                           |        |   |                                   |                              |                       |                       |
| 501                                  | 305000 | Server  |                                   | 100,000.00                   |                       |                       |
| 501                                  | 350000 | PURCHASE OF PRINTERS  | 160,000.00                        | 50,000.00                    | 53,000.00             | 56,180.00             |
| 501                                  | 350000 | PURCHASE OF ICT COMPUTERS   | 328,000.00                        | 65,000.00                    | 68,900.00             | 73,034.00             |
|                                      |        |   | <b>488,000.00</b>                 | <b>215,000.00</b>            | <b>121,900.00</b>     | <b>129,214.00</b>     |

|                                     |        |  |                      |                      |                      |                      |
|-------------------------------------|--------|--|----------------------|----------------------|----------------------|----------------------|
| <b>COUNCIL SUPPORT</b>              |        |  |                      |                      |                      |                      |
| 505                                 | 305101 | VEHICLE  | 900,000.00           | 950,000.00           | -                    | -                    |
|                                     |        |  | <b>900,000.00</b>    | <b>950,000.00</b>    | -                    | -                    |
| <b>HOUSING AND BUILDING CONTROL</b> |        |  |                      |                      |                      |                      |
| 625                                 | 305000 | AIR CONDITIONING   | 120,000.00           | 200,000.00           |                      |                      |
|                                     |        |  | <b>120,000.00</b>    | <b>200,000.00</b>    | -                    | -                    |
| <b>FLEET MANAGEMENT</b>             |        |  |                      |                      |                      |                      |
| 640                                 | 305000 | VEHICLES   |                      | 600,000.00           |                      |                      |
|                                     |        |  | -                    | <b>600,000.00</b>    | -                    | -                    |
| <b>ROADS AND STORMWATER</b>         |        |  |                      |                      |                      |                      |
| 650                                 | 305000 | BOMAG ROLLER   | -                    | 200,000.00           |                      |                      |
| 650                                 | 305000 | UPGRADING OF LETEBEJANE/DITHOLONG INTERNAL STREETS       |                      | 10,120,000.00        |                      |                      |
| 650                                 | 305000 | LEEUFONTEIN SPORTS COMPLEX                               |                      | 10,832,000.00        |                      |                      |
| 650                                 | 305000 | MIMAKGATLE A-B BUS ROUTE                                 |                      |                      | 18,844,250.00        |                      |
| 650                                 | 305000 | MALEBITSIA INTERNAL STREETS                              |                      |                      |                      | 8,000,000.00         |
| 650                                 | 305000 | VAALBANK INTERNAL STREETS                                |                      |                      |                      | 8,286,500.00         |
| 650                                 | 305000 | HIGH MAST LIGHTS (Internal Funding)                      |                      | -                    | 3,000,000.00         | 3,000,000.00         |
| 650                                 | 305000 | PURCHASING OF CONSTRUCTION BOMAG ROLLER                  | -                    | -                    | 1,800,000.00         | 1,685,400.00         |
| 650                                 | 305000 | REHABILITATION OF SECOND STREET IN MARBLEHLL             |                      | 1,000,000.00         |                      |                      |
| 650                                 | 305000 | REHABILITATION OF TABOMBOTIE                             |                      |                      | 1,424,214.00         |                      |
| 650                                 | 305000 | RESEALING OF STREETS IN MARBLEHALL                       |                      |                      | 1,000,000.00         |                      |
| 650                                 | 305000 | REPLACEMENT OF 20 STORMWATER CATCHMENT CONCRETE COVER    |                      | 500,000.00           | -                    |                      |
| 650                                 | 305000 | IMPLEMENTATION OF RMP :MAINTENANCE OF 4TH AVENUE         |                      |                      |                      | 115,068.00           |
| 650                                 | 305000 | IMPLEMENTATION OF RMP :MAINTENANCE OF AKASIA STREETS     |                      | -                    | 1,000,000.00         |                      |
| 650                                 | 305000 | IMPLEMENTATION OF RMP :MAINTENANCE OF DELPHINIUM STREETS |                      |                      |                      | 158,247.00           |
| 650                                 | 305000 | IMPLEMENTATION OF RMP :MAINTENANCE OF DIAMOND STREETS    |                      |                      | 1,000,000.00         |                      |
| 650                                 | 305000 | IMPLEMENTATION OF RMP :MAINTENANCE OF 1ST STREETS        |                      | -                    | 2,000,000.00         | 1,000,000.00         |
| 650                                 | 305000 | IMPLEMENTATION OF RMP :MAINTENANCE OF EWOD MALAN         |                      |                      | 1,027,589.00         |                      |
| 650                                 | 305000 | IMPLEMENTATION OF RMP :MAINTENANCE OF FICUS STREET       |                      |                      |                      | 1,452,611.00         |
| 650                                 | 305025 | DUMPER X 2   | -                    | 400,000.00           | 800,000.00           |                      |
| 650                                 | 305077 | ROAD & STORM WATER MASTERPLAN                            | -                    |                      |                      |                      |
| 650                                 | 305080 | LIGHT DELIVERY VEHICLE                                   | 750,000.00           | -                    | 400,000.00           | 800,000.00           |
| 650                                 | 305114 | MOBILE TOILETS   | -                    | 200,000.00           |                      |                      |
| 650                                 | 305137 | ELANDSKRAAL INTERNAL STREETS                             | 10,000,000.00        |                      |                      |                      |
| 650                                 | 305143 | MOHLALOTWANE INTERNAL STREET                             | 10,007,309.40        |                      |                      |                      |
| 650                                 | 305144 | DICHOEUNG INTERNAL ROAD                                  | -                    | 7,500,000.00         | -                    |                      |
| 650                                 | 305147 | STORMWATER EXT: 6  | 6,000,000.00         | 5,000,000.00         | 5,000,000.00         | 6,000,000.00         |
| 650                                 | 305148 | SAW CUTTER   | -                    | 125,000.00           |                      |                      |
| 650                                 | 305149 | BACKHOE LOADER   | -                    | -                    | 1,000,000.00         |                      |
| 650                                 | 305150 | MOTOR GRADER   | -                    | -                    | 4,000,000.00         |                      |
| 650                                 | 305175 | CONSTRUCTION OF INDUSTRIA ROAD                           | 2,000,000.00         |                      |                      |                      |
| 650                                 | 305177 | PLANNING AND DESIGN FOR MASHEMONG/MOIHOEK                | 1,200,000.00         |                      |                      |                      |
| 650                                 | 305178 | MAMPHOGO SPORTS COMPLEX                                  | 1,200,000.00         | 6,500,000.00         | 6,000,000.00         | 7,500,000.00         |
| 650                                 | 305180 | REHABILITATION OF LEEUFONTEIN INTERNAL STREETS           | 2,500,000.00         |                      |                      |                      |
| 650                                 | 305181 | RATHOKE INTERNAL STREET                                  | 7,000,000.00         |                      |                      | 12,000,000.00        |
| 650                                 | 305182 | NGWALEMONG INTERNAL STREETS                              | 6,000,000.00         | 8,158,000.00         | 9,142,000.00         |                      |
| 650                                 | 305184 | PHETWANE INT ROAD  | 8,000,000.00         |                      |                      |                      |
| 650                                 | 305185 | REHABILITATION OF INTERNAL STREET                        | 3,300,000.00         |                      |                      |                      |
|                                     |        |  | <b>57,957,309.40</b> | <b>50,535,000.00</b> | <b>57,438,053.00</b> | <b>49,997,826.00</b> |
| <b>MUNICIPAL MANAGER</b>            |        |  |                      |                      |                      |                      |
| 750                                 | 305000 | Surveillance Cameras for the workshop                    |                      | 100,000.00           | -                    | -                    |
|                                     |        |  | -                    | <b>100,000.00</b>    | -                    | -                    |
| <b>PLANNING AND DEVELOPMENT</b>     |        |  |                      |                      |                      |                      |
| 640                                 | 200130 | Office space   |                      | 1,500,000.00         | -                    | -                    |
|                                     |        |  | -                    | <b>1,500,000.00</b>  | -                    | -                    |
| <b>FINANCE</b>                      |        |  |                      |                      |                      |                      |
| 775                                 | 305000 | CASH COUNTING MACHINES                                   |                      | 150,000.00           |                      |                      |
|                                     |        |  | -                    | <b>150,000.00</b>    | -                    | -                    |
| <b>TOTA CAPITAL EXPENDITURE</b>     |        |  | <b>69,926,019.40</b> | <b>61,285,000.00</b> | <b>63,667,175.00</b> | <b>63,029,150.00</b> |

## 1.4 Annual Budget Tables

See attached copy of Medium Term Revenue and Expenditure (MTREF) which represents the ten main budget tables (Table A1 to Table A10) as required in terms of section 8 of the Municipal Budget and Reporting Regulations. These tables set out the municipality's 2017/2018 Draft budget in Annexure A.

### Table A1 –Budget Summary

1. Table A1 is a budget summary and provides a concise overview of the Municipality's budget from all of the major financial perspectives (operating, capital expenditure, financial position, cash flow, and MFMA funding compliance).
2. The table provides an overview of the amounts approved by Council for operating performance, resources deployed to capital expenditure, financial position, cash and funding compliance, as well as the municipality's commitment to eliminating basic service delivery backlogs. Financial management reforms emphasize the importance of the municipal budget being funded.
3. This requires the simultaneous assessment of the Financial Performance, Financial Position and Cash Flow Budgets, along with the Capital Budget. The Budget Summary provides the key information in this regard:
  - (A) The operating surplus/deficit (after Total Expenditure) is positive over the final budget
  - (B) Capital expenditure is balanced by capital funding sources, of which
    - i. Transfers recognized are reflected on the Financial Performance Budget
    - ii. Internally generated funds are financed from a combination of the current operating surplus and accumulated cash-backed surpluses from previous years. The amount is incorporated in the Net cash from investing on the Cash Flow Budget. The fact that municipality's cash flow remains positive, and is improving indicates that the necessary cash resources are available to fund the Capital Budget.
4. The Cash backing/surplus reconciliation shows In essence the cash backing surplus table evaluates the funding levels of the budget by firstly forecasting the cash and investments at year end and secondly reconciling the available funding to the liabilities/commitments that exist.
5. From the table it can be seen that for the period 2013/14 up to date, the cash backed reserved shows a positive movement, which proves that the municipality will be able to pay their expenses.
6. Even though the Council is placing great emphasis on securing the financial sustainability of the municipality, this is not being done at the expense of services to the poor

### Table A2 –Budgeted Financial Performance (revenue and expenditure by standard classification)

1. Table A2 is a view of the budgeted financial performance in relation to revenue and expenditure per standard classification. The Total Revenue on this table includes capital revenues (Transfers recognized – capital)
2. The municipality shows a positive surplus for all perspective years. This prove that the municipality follows section 18 of the MFMA.



### **Table A3 – Budgeted Financial Performance (revenue and expenditure by municipal vote)**

1. Table A3 is a view of the budgeted financial performance in relation to the revenue and expenditure per municipal vote. This table facilitates the view of the budgeted operating performance in relation to the organizational structure of the municipality. This means it is possible to present the operating surplus or deficit of a vote.

### **Table A4 – Budgeted Financial Performance (revenue and Expenditure)**

1. Table A4 reflects the level in which the revenue base of the municipality. Our reliance is mainly on grants and subsidies constitute 60% of the total budget.
2. Employee related costs and bulk purchases are the main cost drivers within the municipality and alternative operations gains and efficiencies will have to be identified to lessen the impact of wage and bulk tariff increases in future years.

### **Table A5 – Budgeted Capital Expenditure by vote, standard classification and funding source**

1. Table A5 is a breakdown of the capital programme in relation to capital expenditure by municipal vote (multi-year and single-year appropriations); capital expenditure by standard classification; and the funding sources necessary to fund the capital budget, including information on capital transfers from national and provincial departments.
2. The Draft budget provides that a municipality may approve multi-year or single year capital budget appropriations. In relation to multi-year appropriations, for 2017/2018 R61 million has been allocated for capital expenditure which decreased by 14% when compared to 2016/2017 financial year.

### **Table A6 – Budgeted Financial Position**

1. Table A6 is consistent with international standards of good financial management practice, and improves understandability for councillors and management of the impact of the budget on the statement of financial position.
2. This format of presenting the statement of financial position is aligned to GRAP1, which is generally aligned to the international version which presents Assets less Liabilities as “accounting” Community Wealth. The order of items within each group illustrates items in order of liquidity; i.e. assets readily converted to cash, or liabilities immediately required to be met from cash, appear first.
3. Table A6 is supported by an extensive table of notes SA3 which providing a detailed analysis of the major components of a number of items, including:
  - (a) Call investments deposits
  - (b) Consumer debtors;
  - (c) Property, plant and equipment;
  - (d) Trade and other payables;
  - (e) Provisions noncurrent;

- (f) Changes in net assets; and
- (g) Reserves

4. The municipal equivalent of equity is Community Wealth/Equity. The justification is that ownership and the net assets of the municipality belong to the community.
5. Any movement on the Budgeted Financial Performance or the Capital Budget will inevitably impact on the Budgeted Financial Position. As an example, the collection rate assumption will impact on the cash position of the municipality and subsequently inform the level of cash and cash equivalents at year end. Similarly, the collection rate assumption should inform the budget appropriation for debt impairment which in turn would impact on the provision for bad debt. These budget and planning assumptions form a critical link in determining the applicability and relevance of the budget as well as the determination of ratios and financial indicators. In addition the funding compliance assessment is informed directly by forecasting the statement of financial position.

#### **Table A7 Budgeted Cash Flow Statement**

1. The budgeted cash flow statement is the first measurement in determining if the budget is funded.
2. It shows the expected level of cash in-flow versus cash out-flow that is likely to result from the implementation of the budget.
3. The Budgeted cash flow show a favourable closing balance which clearly indicate that the municipality will be able to finance the adjustment budget over the medium-term.

#### **Table A8 Cash Backed Reserves/Accumulated Surplus**

1. The cash backed reserves/accumulated surplus reconciliation is aligned to the requirements of MFMA Circular 42 – Funding a Municipal Budget.
2. In essence the table evaluates the funding levels of the budget by firstly forecasting the cash and investments at year end and secondly reconciling the available funding to the liabilities/commitments that exist.
3. The outcome of this exercise would either be a surplus or deficit. A deficit would indicate that the applications exceed the cash and investments available and would be indicative of non-compliance with the MFMA requirements that the municipality's budget must be "funded". The municipality shows the positive movement for all the years.
4. Non-compliance with section 18 of the MFMA is assumed because a shortfall would indirectly indicate that the draft budget is not appropriately funded.
5. From the table it can be seen that for the period 2013/2014 up to date, the cash backed reserved shows a positive movement, which proves that the municipality will be able to pay their expenses without borrowings Considering the requirements of section 18 of the MFMA, it can be shown that municipality has funded all the projects by having the positive cash
6. As part of the budgeting and planning guidelines that informed the compilation of the 2017/18 MTREF the end objective of the medium-term framework was to ensure the budget is funded aligned to section 18 of the MFMA.

### **Table A9 – Asset Management**

1. Table A9 provides an overview of municipal capital allocations to building new assets and the renewal of existing assets, as well as spending on repairs and maintenance by asset class.
2. National Treasury has recommended that municipalities should allocate at least 40 per cent of their capital budget to the renewal of existing assets, and allocations to repairs and maintenance should be 8 per cent of PPE. The repairs and maintenance are mainly done In house. Repairs and maintenance is below 8% since we have recently unbundled community assets however the 3% will be able to deal with all items that needs to be repaired or maintained in 2017/2018 financial year.

### **Table A10 Basic Service Delivery Measurement**

This table proves an overview of service delivery levels for each main Service.

The municipality has increased cost of free basic service from R1.6 million in 2016/2017 to R1.8 Million in 2017/2018 financial year.

The following services is not offered by Ephraim Mogale Local municipality hence there are no inputs on the budget.

- (a) Water (Sekhukhune District Municipality)
- (b) Sanitation (Sekhukhune District Municipality)

## **Part 2 – Supporting Documentation**

### ***2.1 Overview of the annual budget process***

Section 53 of the MFMA requires the Mayor of the municipality to provide general political guidance in the budget process and the setting of priorities that must guide the preparation of the budget. In addition Chapter 2 of the Municipal Budget and Reporting Regulations states that the Mayor of the municipality must establish a Budget Steering Committee to provide technical assistance to the Mayor in discharging the responsibilities set out in section 53 of the Act.

The Budget Steering Committee consists of the Municipal Manager and senior officials of the municipality meeting under the chairpersonship of the Mayor and MMC for Finance is also a member.

The primary aims of the Budget Steering Committee are to ensure:

- that the process followed to compile the budget complies with legislation and good budget practices;
- that there is proper alignment between the policy and service delivery priorities set out in the Municipality's IDP and the budget, taking into account the need to protect the financial sustainability of municipality;
- that the municipality's revenue and tariff setting strategies ensure that the cash resources needed to deliver services are available; and
- that the various spending priorities of the different municipal departments are properly evaluated and prioritised in the allocation of resources.

A schedule of key deadlines was prepared for tabling in Council by the Mayor prior to the end of August 2016 as required. The draft budget will be tabled in Council before 31 March 2017. A period of consultation will then follow as per Sections 22 and 23 of the MFMA.

#### **a. Budget Process Overview**

In terms of section 21 of the MFMA the Mayor is required to table in Council ten months before the start of the new financial year (i.e. in August 2014) a time schedule that sets out the process to revise the IDP and prepare the budget.

The following has been adhered to in terms of the Budget Time Table and IDP process plan:

The budget process timetable was submitted to council and approved.

SDBIP's were approved as provided for in the MFMA Section 53 (3)(a).

Financial statements were prepared and submitted on 31 August 2016.

The Budget Advisory Committee held its meetings for the reviewing the annual performance.

The mid-year budget and performance assessment was tabled to council and approved.

The annual report was tabled to council.

The adjustment budget process was finalized and tabled to council for approval on the 28<sup>th</sup> February 2017.

The strategic planning took place on the January 2017 and the purpose as per the timetable is to align the budget with the IDP, where community needs have been prioritized.

The municipality will hold public participation meetings for comments with regards to the budget from the 01<sup>st</sup> April– 29<sup>th</sup> 2016.

## **1.2 Overview of alignment of annual budget with IDP**

The Ephraim Mogale Local Council adopted an Integrated Development Plan (IDP) process plan in terms of section 28 of the Municipal Systems Act which clarified the roles and responsibilities of IDP structures that must be established for the consideration of the final IDP review for the 2017/2018 Financial Year.

This review process was done in terms of section 34 of the MSA<sup>2</sup> which inter-alia reads as follows:

*"A municipal Council must review its IDP in accordance with an assessment of its performance measurements in terms of section 41; and to the extent that changing circumstances so demand; and may amend its IDP in accordance with a prescribed process".*

Therefore, the purpose of this review is to incorporate the views of the community of EPRHAIM MOGALE, as influenced by changing circumstances.

Accordingly, section 25 of the Municipal Structures Act (MSA) says that each municipal council must, within a prescribed period after its elected term, adopt a single, inclusive and strategic plan for the development of the municipality which;

- (a) Links, integrates and co-ordinates plans and takes into account proposals for the development of the municipality;
- (b) Aligns the resources and capacity of the municipality with the implementation of the plan;
- (c) Forms the policy framework and general basis on which annual budgets must be based
- (d) Is compatible with National and Provincial development plan and planning requirements binding on the municipality in terms of MFMA Circular no. 54.

An integrated development plan adopted by a municipal council in terms of sub-section (1) may be amended in terms of section 34 and remains in force until an integrated development plan is adopted by the next elected council.

In drafting the IDP for the next five years, the municipality has followed its process plan adopted in terms of section 28 (1)(2) and (3) of the Municipal Systems Act, adopted by council during August 2016.

Section 26 (a) to (i) of the MSA<sup>2</sup> prescribes nine (9) key components which must appear on a credible IDP and these components are discussed in summary below.

- a) The vision of the Municipality
- b) Guided by the community, the Municipal Council has developed a set of priority development issues as per the requirement of section 26 (c), which are clustered into five Key Performance Areas, to be implemented during the next three years.

The Key Performance Areas are the following:

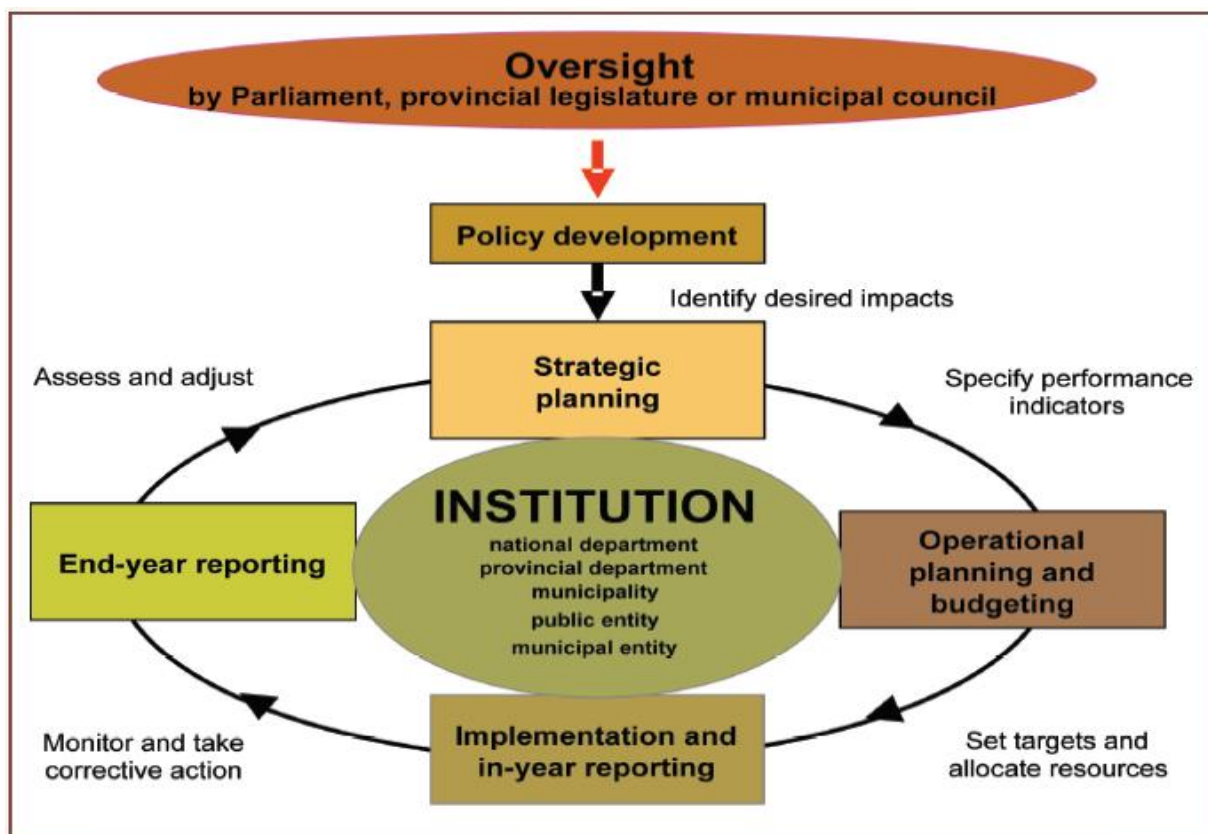
1. Service Delivery and Infrastructure Developments
2. Local Economic Development
3. Municipal Financial Liability
4. Institutional Transformation
5. Good Governance and Public Participation
6. Spatial Rationale

### ***1.3 Measurable performance objectives and indicators***

The key financial indicators and ratios are disclosed in Supporting Table SA8: Performance indicators and benchmarks. Ephraim Mogale Local municipality is anticipating an 82% collection rate in 2017/2018 financial year.

Performance Management is a system intended to manage and monitor service delivery progress against the identified strategic objectives and priorities. In accordance with legislative requirements and good business practices as informed by the National Framework for Managing Programme Performance Information, the Municipality has developed and implemented a performance management system of which system is constantly refined as the integrated planning process unfolds. The Municipality targets, monitors, assess and reviews organisational performance which in turn is directly linked to individual employee's performance.

At any given time within government, information from multiple years is being considered; plans and budgets for next year; implementation for the current year; and reporting on last year's performance. Although performance information is reported publicly during the last stage, the performance information process begins when policies are being developed, and continues through each of the planning, budgeting, implementation and reporting stages. The planning, budgeting and reporting cycle can be graphically illustrated as follows:

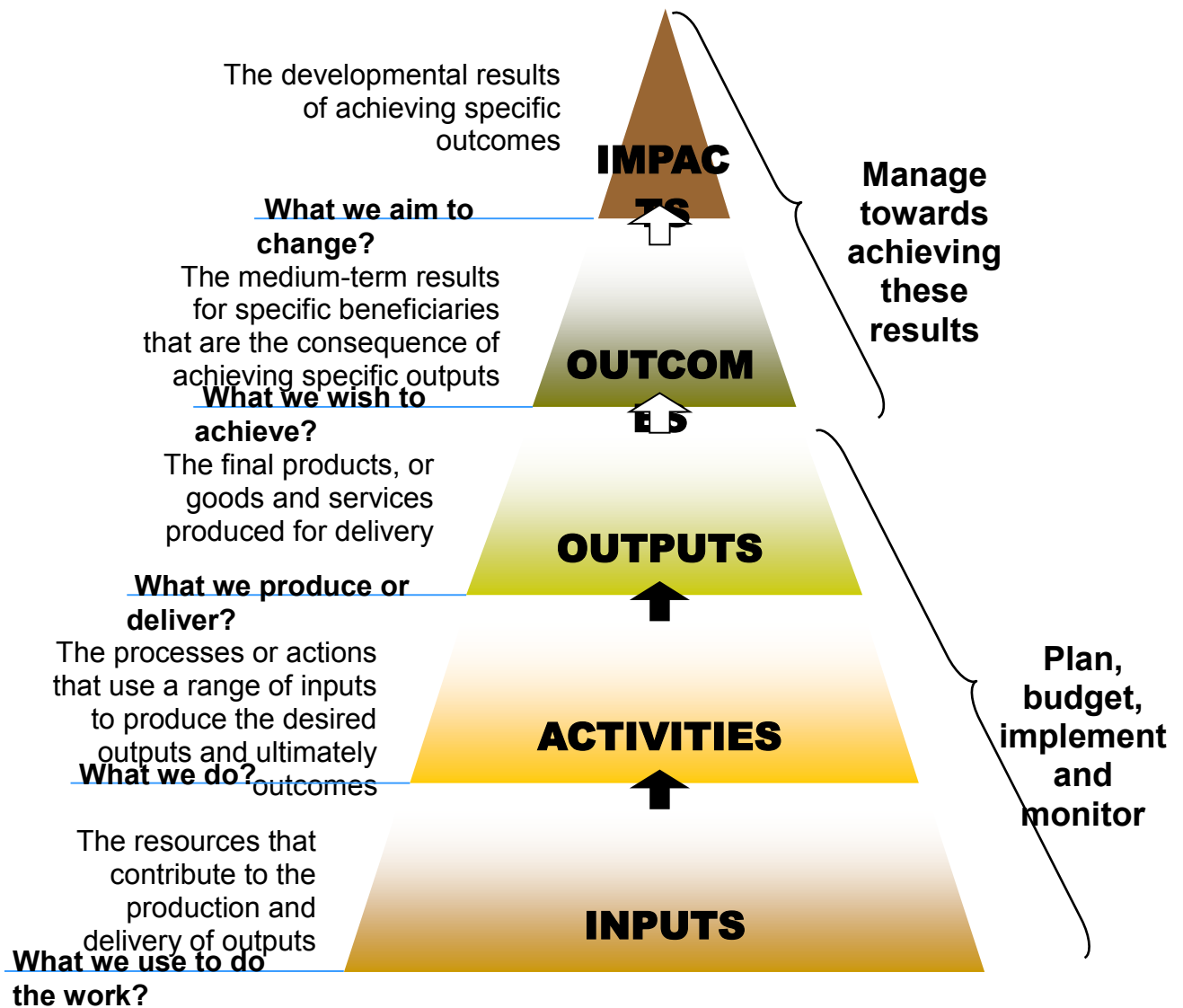


**Figure 1 Planning, budgeting and reporting cycle**

The performance of the Municipality relates directly to the extent to which it has achieved success in realising its goals and objectives, complied with legislative requirements and meeting stakeholder expectations. The Municipality therefore has adopted one integrated performance management system which encompasses:

- Planning (setting goals, objectives, targets and benchmarks);
- Monitoring (regular monitoring and checking on the progress against plan);
- Measurement (indicators of success);
- Review (identifying areas requiring change and improvement);
- Reporting (what information, to whom, from whom, how often and for what purpose); and
- Improvement (making changes where necessary).

The performance information concepts used by the Municipality in its integrated performance management system are aligned to the **Framework of Managing Programme Performance Information** issued by the National Treasury:





## **2.4 Overview of budget related-policies**

The Municipality's budgeting process is guided and governed by relevant legislation, frameworks, strategies and related policies.

The purpose of these policies is to prescribe the accounting and administrative and procedures relating to Ephraim Mogale Municipality.

The Municipality performs the procedures set out in the policies to ensure the effective planning and sound financial management

1. **Credit Debt Management Policy** - The implementation of this policy should be based on sound business practices. This includes credit worthiness checks when application for services is made, as well as debt collection through sanctions of warnings, disconnections, evictions and other legal processes.
2. **Supply Chain Management Policy** - The purpose of this manual is to prescribe the policies and procedures relating to Supply Chain Management of the EPRHAIM MOGALE Municipality. The principles of this policy is to give effect to a fair, equitable, transparent, competitive and cost-effective system for the procuring of goods and services, disposing of goods and selecting of contractors in the provision of municipal services.
3. **Budget Policy** - The purpose of this policy is to provide an overview of the procedure for the structural process of Planning and Managing the Budget. The procedures include the development of budgets, including the preparation of the budget, revision, approval, monitoring and evaluation of budgetary performance for a financial year.
4. **Indigent Support Policy** - to provide access and regulate free basic services to all indigent households.
5. **Tariff and Rates Policy** –the purpose of this policy is to determine the tariffs which must be charged for the supply of the four major services, which are : water, electricity, sewerage & refuse.
6. **Property Rates Policy** – the purpose of this policy is to assist the municipality to impose rates within a statutory framework which enhances certainty, uniformity and simplicity across the nation and which takes account of historical imbalances and the burden of rates on the poor. It be noted that the municipality is working on final draft.
7. **Investment policy** – this policy prescribes for the management of cash and the investing of municipal money. Travel and Subsistence Policy
8. **Travel and Subsistence** - This policy regulates the re-imbursement of travelling and subsistence cost to officials and councilors attending to official business.

9. **Cell Phone Policy** - The aim of this policy is to: regulate the granting of cell phones allowance to the employees of Ephraim Mogale Local Municipality improve the communication in the workplace and to the public, in order to give a better service.
10. **Funding and Reserve Policy**- This policy ensures that cash resources and reserves are maintained at the required levels to avoid future year unfunded liabilities.
11. **Overtime and standby policy** – To provide framework and guidelines for the implementation and maintenance of overtime and standby worked and the remuneration attached thereto.
12. **Acting Allowance Policy**– Provide guidelines for the handling of acting in various positions
13. **Virement Policy**- Provides guidance on how and when they may shift funds between items, projects, programmes within their areas of responsibilities.
14. **Transport Allowance** - To provide Ephraim Mogale Local Municipality with uniform procedures, conditions and limitations for transport allowances in a consistent, fair and equitable manner.

## **2.5 Overview of budget assumptions**

### **2.5.1 External factors**

We will further investigate the following during our public participation process as well as per internal research and take the following into consideration:

- Confirm the labour (i.e. the wage agreements with unions) and other input costs of services provided by the municipality or entity,
- Ensure the need to ensure financial sustainability,
- Reconsider the local economic conditions and the affordability of services,
- Taking into consideration the municipality's indigent policy.
- We also considered relevant policy developments in the different sectors.
- In considering changes in property rates, the municipality took cognizance of local economic conditions such as the changes in the property market, trends in household incomes and unemployment. Excessive increases in property rates and other tariffs are likely to be counterproductive, resulting in higher levels of non-payment and increased bad debts.

Headline inflation forecasts:

| <b>Fiscal year</b> | <b>2016/17</b> | <b>2017/18</b>  | <b>2018/19</b>  | <b>2019/20</b>  |
|--------------------|----------------|-----------------|-----------------|-----------------|
|                    | <b>Actual</b>  | <b>Estimate</b> | <b>Forecast</b> | <b>Forecast</b> |
| Real GDP growth    | 0.5%           | 1.3%            | 2.0%            | 2.2%            |
| CPI Inflation      | 6.4%           | 6.4%            | 5.7%            | 5.6%            |

Source: Budget Review 2017

### 2.5.2 General inflation outlook and its impact on the municipal activities

There are five key factors that have been taken into consideration in the compilation of the 2016/17 MTREF:

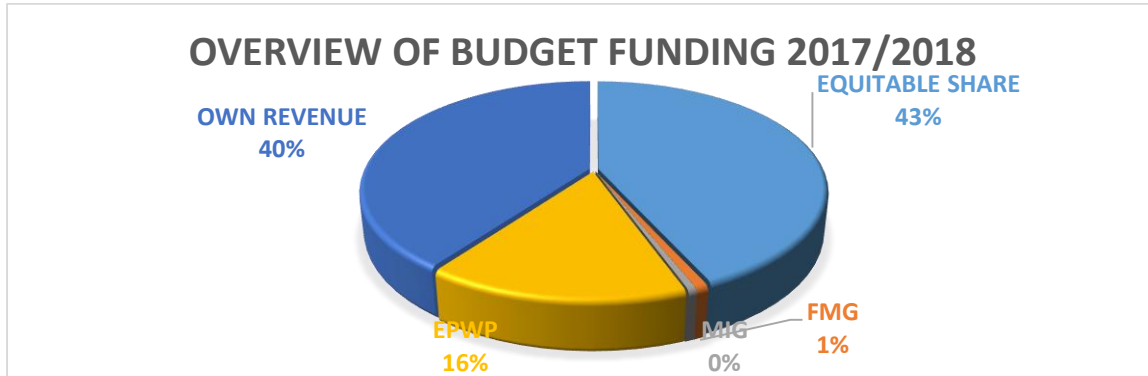
- National Government macro-economic targets;
- The general inflationary outlook and the impact on Municipality's residents and businesses;
- The impact of municipal cost drivers;
- The increase in prices for bulk electricity and water; and
- The increase in the cost of remuneration by 7.4%.
- The 82% average payment rate.

### 2.6 Overview of Budget Funding

Section 18(1) of the MFMA states that an annual budget may only be funded from:

- Realistically anticipated revenues to be collected;
- Cash backed accumulated funds from previous years' surpluses not committed for other purposes; and
- Borrowed funds, but only for the capital budget referred to in section 17.

Achievement of this requirement in totality effectively means that a Council has 'balanced' its budget by ensuring that budgeted outflows will be offset by a combination of planned inflows. Refer Table A8: Cash backed reserves/accumulated surplus reconciliation' and Supporting Table SA10: Funding measurement.



## **2.7 Expenditure on allocations and grants programmers**

| NAME OF THE GRANT                     | ALLOCATION AUTHORITY/DEPARTMENT | Budget Year 2017/18 | Budget Year 2018/19 | Budget Year 2019/20 | PURPOSE  |
|---------------------------------------|---------------------------------|---------------------|---------------------|---------------------|--|
| EQUITABLE SHARE                       | National Government             | 123,766,000         | 129,255,000         | 132,946,000         | To implement the Programme by providing capital subsidies to municipalities to address the electrification backlog   |
| FINANCE MANAGEMENT GRANT              | National Government             | 2,145,000           | 2,400,000           | 2,660,000           | To promote and support reforms in financial management by building the capacity in municipalities to implement the Municipal Finance Management Act.   |
| MUNICIPAL INFRASTRUCTURE GRANT        | National Government             | 1,447,000           | -                   | -                   | To supplement capital finance for basic municipal infrastructure for poor households, micro enterprises and social institutions.   |
| EPWP- EXTENDED PUBLIC WORKS PROGRAMME | National Government             | 44,810,000          | 35,775,000          | 37,670,000          | To incentivise municipalities to expand work creation efforts through the use of labour intensive delivery methods in identified focus areas, in compliance with the Expanded Public Works Programme guidelines. |

Expenditure on grants can also be viewed in SA19 and SA20 attached with other supporting documents in Annexure A

## **2.8 Allocation and Grants made by the Municipality**

- Allocation and Grants made by the Municipality is reflected on Annexure A

## **2.9 Councilors and employee benefits**

Councillor and employee benefits can be viewed in SA 22 and 23, together with the summary of the personnel numbers in SA24 attached as Annexure A

## **2.10 Monthly targets for revenue, expenditure and cash**

Disclosure on monthly targets for revenue, expenditure and cash flow is made in the following MTREF tables:

- (A) TABLE SA25 - Budgeted monthly revenue and expenditure
- (B) TABLE SA26 - Budgeted monthly revenue and expenditure (municipal vote)
- (C) TABLE SA27 - Budgeted monthly revenue and expenditure (standard classification)
- (D) TABLE SA28 - Budgeted monthly capital expenditure (municipal vote)
- (E) TABLE SA29 - Budgeted monthly capital expenditure (standard classification)
- (F) TABLE SA30 - Budgeted monthly cash flow

### **2.11 Annual budgets and SDBIPs – internal departments**

- In terms of section 53(1)(c)(ii) of the MFMA the Service Delivery and Budget Implementation Plan must be approved by the Mayor within 28 days after the final approval of the budget. The monthly and quarterly service delivery targets and performance indicators will be revised to correspond with the 2017/2018 budget.

### **2.12 Contracts having future budgetary implications**

- In terms of the Municipality's Supply Chain Management Policy, no contracts are awarded beyond the medium-term revenue and expenditure framework (three years).

### **2.13 Capital expenditure details**

Capital Details are shown in the following MTREF Tables:

- TABLE SA 34a – Capital expenditure on new assets by assets class
- TABLE SA 34b – Capital Expenditure on the renewal of existing assets by assets class
- TABLE SA 34c – Repairs and maintenance expenditure by assets class
- TABLE SA 34d - Depreciation by assets classification
- TABLE SA 35 – Future financial implications of the capital budget
- TABLE SA 36 – Detailed capital budget per municipal vote
- TABLE SA 37– Projects delayed from previous financial year

### **2.14 Legislation compliance status**

The Municipality operations are governed by an array of different acts.

The following Acts and prescripts are central in defining municipal boundaries and areas of influence:

- ◆ Regional Services Council Act, 1985 (Act 109 of 1985)
- ◆ Local Government: Municipal Structures Act, Act 117 of 1998 with all its amendments to date.
- ◆ Local Government : Municipal Systems Act, Act 32 of 2000 with all its amendments to date in its entirety together with regulations promulgated and applicable to high capacity municipalities.
- ◆ Local Government: Municipal Finance Management Act, Act 56 of 2004 in its entirety including regulations promulgated.
- ◆ Compliance is also given to circulars by National Treasury in line with the Municipal Systems Act and the Municipal Finance Management Act
- ◆ Local Government : Property Rates Act, Act 6 of 2004 and its promulgated regulations

Thus not only is Ephraim Mogale Local Municipality responsive to national government legislation, it has to comply with all the local government regulations and acts.

**2.15 Other Supporting Document.**

Other supporting documents entail supporting budget tables on SA1 to SA38, attached as **Annexure A**

**2.16 Annual Budget of municipal entities to the municipal annual budget**

- Not applicable